Masilonyana Local Municipality
Annual Financial Statements
for the year ended 30 June 2016

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Published

30 November 2016

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the National Treasury for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 3.

The annual financial statements set out on pages 3 to 89, which have been prepared on the going concern basis, were approved by the accounting officer on 30 November 2016 and were signed on its behalf by:

Municipal Manager

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2016.

1. Incorporation

Masilonyana Municipality is a local municipality performing the functions as set out in the Constitution. (Act no 108 of 1996).

South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998).

2. Review of activities

Main business and operations

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 6 674 391 (2015: surplus R 6 840 105).

3. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

4. Subsequent events

Soutpan will not be managed under Masilonyana Local Municipality but under Mangaung Metro Municipality with effect from 01 July 2016.

5. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Mr M.D Nthau	South Africa

7. Bankers

The municipality’s preferred banking institution is:
ABSA Bank
Theunissen
9410

Branch Code: 632005
Acc No: 40 5351 7822

8. Auditors

Auditor General of South Africa will continue in office for the next financial period.

9. Jurisdiction

The Masilonyana Local Municipality includes the following areas:

Brandfort
Soutpan
Theunissen
Verkeerdevlei
Winburg

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Inventories	3	218 716	12 996
Receivables from exchange transactions	4	19 711	27 251
Receivables from non-exchange transactions	5	31 997	32 162
VAT receivable	6	11 177 593	15 795 107
Consumer debtors	7	29 117 714	21 450 916
Cash and cash equivalents	8	1 001 172	17 698 953
		41 566 903	**55 017 385**
Non-Current Assets			
Investment property	9	68 183 789	69 034 281
Property, plant and equipment	10	634 078 239	600 794 937
Other financial assets	11	93 252	95 567
		702 355 280	**669 924 785**
Total Assets		**743 922 183**	**724 942 170**
Liabilities			
Current Liabilities			
Other financial liabilities	12	485 748	429 947
Finance lease obligation	13	515 336	-
Payables from exchange transactions	14	135 605 219	97 183 341
Consumer deposits	15	1 428 748	1 265 792
Employee benefit obligation	16	587 916	513 192
Unspent conditional grants and receipts	17	11 949 818	16 236 064
Provisions	18	1 258 485	987 770
		151 831 270	**116 616 106**
Non-Current Liabilities			
Other financial liabilities	12	1 874 015	2 358 732
Finance lease obligation	13	830 825	-
Employee benefit obligation	16	4 770 120	4 720 924
Provisions	18	30 231 913	31 142 420
		37 706 873	**38 222 076**
Total Liabilities		**189 538 143**	**154 838 182**
Net Assets		**554 384 040**	**570 103 988**
Accumulated surplus		554 384 040	570 103 988

* See Note 46

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	20	88 250 813	66 259 866
Rental of facilities and equipment	21	253 261	240 582
Other income		332 595	17 074
Interest received - investment	23	8 107 348	5 105 135
Dividends received	23	4 860	4 692
Total revenue from exchange transactions		**96 948 877**	**71 627 349**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	35 060 357	16 585 703
Transfer revenue			
Government grants & subsidies	25	156 607 170	163 397 470
Fines, Penalties and Forfeits		260 000	43 053
Donations received		-	45 000
Total revenue from non-exchange transactions		**191 927 527**	**180 071 226**
Total revenue	19	**288 876 404**	**251 698 575**
Expenditure			
Employee related costs	26	86 134 253	73 232 764
Remuneration of councillors	27	6 252 891	4 938 593
Capital donations	28	-	15 090 643
Depreciation and amortisation	29	27 384 106	24 556 918
Impairment loss	30	460 682	7 105 842
Finance costs	31	8 924 766	4 789 733
Lease rentals on operating lease	38	6 546 934	589 968
Debt Impairment	32	75 794 046	29 492 636
Repairs and maintenance		11 884 169	7 708 663
Bulk purchases	33	33 769 606	34 082 940
General Expenses	34	38 218 345	43 088 359
Total expenditure		**295 369 798**	**244 677 059**
Operating (deficit) surplus		**(6 493 394)**	**7 021 516**
Gain on disposal of assets and liabilities		473 745	-
Fair value adjustments	35	(2 315)	4 824
Actuarial gains/losses	16&18	(652 427)	(186 235)
		(180 997)	**(181 411)**
(Deficit) surplus for the year		**(6 674 391)**	**6 840 105**

* See Note 46

Masilonyana Local Municipality
Annual Financial Statements for the year ended 30 June 2016

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	547 588 121	547 588 121
Adjustments		
Correction of errors	15 675 762	15 675 762
Balance at 01 July 2014 as restated*	**563 263 883**	**563 263 883**
Changes in net assets		
Surplus for the year	6 840 105	6 840 105
Total changes	6 840 105	6 840 105
Restated* Balance at 01 July 2015	**570 103 986**	**570 103 986**
Changes in net assets		
Deficit for the year	(6 674 391)	(6 674 391)
Directly against accumulated surplus	(9 045 555)	(9 045 555)
Total changes	(15 719 946)	(15 719 946)
Balance at 30 June 2016	**554 384 040**	**554 384 040**

Note(s)

* See Note 46

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		30 795 790	39 797 488
Grants		151 344 962	144 719 894
Interest income		8 107 348	5 105 135
Dividends received		4 860	4 692
Fines, penalties and forfeits		260 000	43 053
Taxes		6 653 412	-
		197 166 372	189 670 262
Payments			
Employee costs		(92 387 144)	(76 459 476)
Suppliers		(56 147 571)	(59 312 450)
Finance costs		(927 454)	(3 545 431)
Taxes		-	(2 666 571)
		(149 462 169)	(141 983 928)
Net cash flows from operating activities	37	**47 704 203**	**47 686 334**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(60 059 641)	(32 687 954)
Proceeds from sale of property, plant and equipment	10	473 745	-
Net cash flows from investing activities		**(59 585 896)**	**(32 687 954)**
Cash flows from financing activities			
Repayment of other financial liabilities		(4 328 888)	(414 916)
Finance lease payments		(487 200)	(462 708)
Net cash flows from financing activities		**(4 816 088)**	**(877 624)**
Net increase/(decrease) in cash and cash equivalents		**(16 697 781)**	**14 120 756**
Cash and cash equivalents at the beginning of the year		17 698 953	3 578 197
Cash and cash equivalents at the end of the year	8	**1 001 172**	**17 698 953**

* See Note 46

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue by source						
Property rates	18 946 664	14 581 000	**33 527 664**	35 060 357	**1 532 693**	Note 50
Service charges	82 361 080	10 347 000	**92 708 080**	88 250 812	**(4 457 268)**	Note 50
Investment revenue	5 192 000	169 000	**5 361 000**	8 107 348	**2 746 348**	Note 50
Transfers recognised - operational	92 163 000	-	**92 163 000**	93 097 869	**934 869**	Note 50
Other own revenue	6 403 050	200 000	**6 603 050**	850 716	**(5 752 334)**	Note 50
Total Revenue (excluding capital transfers and contributions)	**205 065 794**	**25 297 000**	**230 362 794**	**225 367 102**	**(4 995 692)**	
Expenditure by type						
Employee costs	(67 406 705)	1 280 400	**(66 126 305)**	(86 134 252)	**(20 007 947)**	Note 50
Remuneration of councillors	(4 936 304)	150 304	**(4 786 000)**	(6 252 892)	**(1 466 892)**	Note 50
Debt impairment	-	-	**-**	(75 794 046)	**(75 794 046)**	Note 50
Depreciation & asset impairment	(30 459 820)	-	**(30 459 820)**	(27 844 788)	**2 615 032**	Note 50
Finance charges	(2 881 538)	1 338 000	**(1 543 538)**	(8 924 766)	**(7 381 228)**	Note 50
Materials and bulk purchases	(86 196 277)	11 065 585	**(75 130 692)**	(33 769 606)	**41 361 086**	Note 50
Transfers and grants	(15 523 532)	-	**(15 523 532)**	(30 867 187)	**(15 343 655)**	Note 50
Other expenditure	(48 464 587)	(5 103 425)	**(53 568 012)**	(33 522 531)	**20 045 481**	Note 50
Total expenditure	**(255 868 763)**	**8 730 864**	**(247 137 899)**	**(303 110 068)**	**(55 972 169)**	
Surplus	**(50 802 969)**	**34 027 864**	**(16 775 105)**	**(77 742 966)**	**(60 967 861)**	
Transfers recognised - capital	25 230 000	8 900 000	**34 130 000**	49 636 656	**15 506 656**	Note 50
Contributions recognised - capital & contributed assets	8 560 000	5 789 000	**14 349 000**	13 872 645	**(476 355)**	Note 50
Surplus after capital transfers & contributions	**(17 012 969)**	**48 716 864**	**31 703 895**	**(14 233 665)**	**(45 937 560)**	
Surplus for the year	**(17 012 969)**	**48 716 864**	**31 703 895**	**(14 233 665)**	**(45 937 560)**	
Reconciliation						

Masilonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Cash	7 509 177	-	**7 509 177**	1 001 172	**(6 508 005)**	Note 50
VAT receivable	-	-	**-**	11 177 593	**11 177 593**	Note 50
Consumer debtors	42 837 000	-	**42 837 000**	29 117 715	**(13 719 285)**	Note 50
Other debtors	-	-	**-**	51 708	**51 708**	Note 50
Inventory	15 188	-	**15 188**	218 716	**203 528**	Note 50
	50 361 365	**-**	**50 361 365**	**41 566 904**	**(8 794 461)**	
Non-Current Assets						
Investments	96 006	-	**96 006**	93 252	**(2 754)**	Note 50
Investment property	73 938 090	-	**73 938 090**	68 183 789	**(5 754 301)**	Note 50
Property, plant and equipment	579 055 686	-	**579 055 686**	634 078 239	**55 022 553**	Note 50
	653 089 782	**-**	**653 089 782**	**702 355 280**	**49 265 498**	
Total Assets	**703 451 147**	**-**	**703 451 147**	**743 922 184**	**40 471 037**	
Liabilities						
Current Liabilities						
Unspent conditional grants and receipts	-	-	**-**	11 949 818	**11 949 818**	
Borrowing	787 152	-	**787 152**	1 001 085	**213 933**	Note 50
Consumer deposits	1 202 276	-	**1 202 276**	1 428 748	**226 472**	Note 50
Trade and other payables	34 580 200	8 900 000	**43 480 200**	135 605 216	**92 125 016**	Note 50
Provisions	-	-	**-**	1 846 401	**1 846 401**	Note 50
	36 569 628	**8 900 000**	**45 469 628**	**151 831 268**	**106 361 640**	
Non-Current Liabilities						
Borrowing	2 975 814	-	**2 975 814**	2 704 840	**(270 974)**	Note 50
Provisions	-	-	**-**	35 002 035	**35 002 035**	Note 50
	2 975 814	**-**	**2 975 814**	**37 706 875**	**34 731 061**	
Total Liabilities	**39 545 442**	**8 900 000**	**48 445 442**	**189 538 143**	**141 092 701**	
Net Assets	**663 905 705**	**(8 900 000)**	**655 005 705**	**554 384 041**	**(100 621 664)**	
Community wealth/equity						
Accumulated Surplus/(Deficit)	663 905 705	(8 900 000)	**655 005 705**	554 384 041	**(100 621 664)**	Note 50
Total community wealth/equity	**663 905 705**	**(8 900 000)**	**655 005 705**	**554 384 041**	**(100 621 664)**	

The accounting policies on pages 11 to 37 and the notes on pages 38 to 86 form an integral part of the annual financial statements.

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality and have been rounded of to the nearest Rand.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including repayment probability of the consumers over period of time, category of the consumer debtors between residential, commercial and agricultural, identifincation of possible riots by the public causing damages to proeprty and tangible assets.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 16.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on the straight line basis over the useful life of the property, which is as follows:

Item	**Useful life**
Property - land	indefinite
Property - buildings	30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:
- land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations;
- land held for a currently undetermined future use;
- a building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases on a commercial basis and a building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, are as follows:

1.4 Investment property (continued)

- The municipality may hold property to earn rental and for capital appreciation or both and this will be classified as investment property. Investment property generates cash flows largely independently of the other assets held by an entity.
- The production or supply of goods or services (or the use of property for administrative purposes) can also generate cash flows that are attributable not only to property, but also to other assets used in the production or supply process. For example, the municipality may use a building to provide goods and services to recipients in return for full or partial cost recovery. However, the building is held to facilitate the production of goods and services and the cash flows are attributable not merely to the building, but also to other assets used in the production or supply process. The Standard of GRAP on Property, Plant and Equipment applies to owner-occupied property.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	30 - 100 Years

Accounting Policies

1.5 Property, plant and equipment (continued)

Furniture and fixtures	Straight line	6 - 7 Years
Motor vehicles	Straight line	4 - 15 Years
Office equipment	Straight line	3 - 10 Years
IT equipment	Straight line	3 Years
Infrastructure	Straight line	10 - 100 Years
Community	Straight line	3 - 100 Years
Other property, plant and equipment	Straight line	1 - 40 Years
Roads and Paving Infrastructure	Straight line	15 - 100 Years
Refuse Infrastructure	Straight line	15 Years
Electricity Infrastructure	Straight line	40 - 75 Years
Water Infrastructure	Straight line	10 - 100 Years
Sewerage Infrastructure	Straight line	45 - 60 Years
Housing Infrastructure	Straight line	30 Years
Watercraft	Straight line	15 Years
Bins and containers	Straight line	5 Years
Specialised plant and equipment	Straight line	1 - 40 Years
Landfill sites	Straight line	10 - 100 Years
Quarries	Straight line	5 - 25 Years
Emergency equipment	Straight line	5 - 7 Years
Water/Electricity meters	Straight line	20 Years
Solar lights	Straight line	50 Years
High mast lights	Straight line	40 Years
Street lights	Straight line	40 Years
Finance lease assets	Straight line	3 - 5 Years
Specialised vehicles	Straight line	3 - 60 Years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

1.6 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or

1.7 Financial instruments (continued)

- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;

1.7 Financial instruments (continued)

- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	**Category**
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial liability measured at cost
Receivables from non-exchange transactions	Financial liability measured at cost
Other financial assets	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	**Category**
Finance lease obligations	Financial liability measured at amortised cost
Other liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at cost
Consumer deposits	Financial liability measured at cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.7 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

1.7 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

1.8 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

1.10 Impairment of cash-generating assets (continued)

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.11 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Accounting Policies

1.11 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

1.11 Impairment of non-cash-generating assets (continued)

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.13 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or

1.13 Employee benefits (continued)

- an employee’s decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity’s actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity’s own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity’s informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity’s informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

Accounting Policies

1.13 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

1.13 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Future events that may affect the amount required to settle an obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision. Gains from the expected disposal of assets shall not be taken into account in measuring a provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

1.14 Provisions and contingencies (continued)

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

1.15 Commitments (continued)

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

1.16 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

1.17 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

1.23 Budget information (continued)

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2015 to 30/06/2016.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.24 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

1.25 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Figures in Rand	2016	2015

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- A person or a close member of that person’s family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 16 (as amended 2015): Investment Property

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Various amendments were made to the Standard, affecting Definitions, Identification, Disclosure, Effective date and Transitional provisions.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 17 (as amended 2015): Property, Plant and Equipment

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Amendments identified as part of the post-implementation review, affected the following areas:

- Indicator-based assessment of the useful lives of assets
- Use of external valuers
- Encouraged disclosures
- Capital work-in-progress
- Expenditure incurred on repairs and maintenance

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 21 (as amended 2015): Impairment of non-cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Non-cash-generating Assets are outlined below:

General definitions:

The definition of cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Identifying an asset that may be impaired:

Additional commentary has been added to clarify that physical damage triggers impairment of an asset when it results in a permanent or a significant decline in the potential of an asset.

Reversing an impairment loss:

An indicator has been added that the restoration of an asset's service potential following physical damage to the asset could indicate a reversal in an impairment loss.

Additional commentary has been added to clarify that restoration of an asset's service potential as a result of physical damage is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased.

Disclosures:

The requirement to disclose the criteria developed to distinguish non-cash-generating assets from cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 26 (as amended 2015): Impairment of cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Cash-generating Assets are outlined below:

General definitions:

The definitions of cash-generating assets and cash-generating unit have been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets below.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Disclosures:

The requirement to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

3. Inventories

Water	22 109	12 996
Stores, materials and fuels	196 607	-
	218 716	**12 996**
Inventories recognised as an expense during the year	2 607 935	4 658 564

Inventory pledged as security

No inventory was pledged as security for any liabilities for the current and prior year.

4. Receivables from exchange transactions

Other sundry debtors	19 711	27 251

Trade and other receivables pledged as security

No trade receivables have been pledged as security for the current and prior year.

The carrying amount of trade and other receivables are denominated in the following currencies:

Rand	57 806	27 251

5. Receivables from non-exchange transactions

Other receivables	31 997	32 162

Receivables from non-exchange transactions pledged as security

No trade receivables have been pledged as security for the current and the prior year.

The carrying amount of other receivables from non-exchange transactions are denominated in the following currencies:

Rand	31 997	32 162

6. VAT receivable

VAT	11 177 593	15 795 107

The value added tax recoverable from, or payable to, the taxation authority presented in this note and the Statement of Financial Position is on the accrual basis while the municipality is registered on cash basis according to section 15 of the Value-added Tax Act, 1991 (Act 89 of 1991).

The total amount of VAT receivable is R2 289 755 (2015: R1 153 882) on the cash basis. The balance on the accrual basis at 30 June 2016 is R11 177 593 (2015: R15 795 107) and this is the net amount payable after all cash receipts of consumers and cash payments to suppliers.

7. Consumer debtors

Gross balances		
Rates	59 660 970	49 379 579
Electricity	111 555 345	129 681 946
Water	95 072 200	70 053 595
Sewerage	78 607 806	72 657 808
Refuse	43 685 393	37 768 293
Other (specify)	57 868 805	1 412 553
	446 450 519	**360 953 774**

Figures in Rand	2016	2015

7. Consumer debtors (continued)

Less: Allowance for impairment		
Rates	(55 469 891)	(46 848 469)
Electricity	(106 877 017)	(121 764 710)
Water	(86 988 453)	(66 335 440)
Sewerage	(73 320 046)	(67 920 942)
Refuse	(40 718 271)	(35 304 665)
Other (specify)	(53 959 127)	(1 328 632)
	(417 332 805)	**(339 502 858)**

Net balance		
Rates	4 191 079	2 531 110
Electricity	4 678 328	7 917 236
Water	8 083 747	3 718 155
Sewerage	5 287 760	4 736 866
Refuse	2 967 122	2 463 628
Other (specify)	3 909 678	83 921
	29 117 714	**21 450 916**

Included in above is receivables from exchange transactions		
Electricity	4 678 328	7 917 236
Water	8 083 747	3 718 156
Sewerage	5 287 760	4 736 867
Refuse	2 967 122	2 463 627
Other - receivables from exchange	3 909 678	83 919
	24 926 635	**18 919 805**

Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	4 191 079	2 531 109
Net balance	**29 117 714**	**21 450 914**

Rates		
Current (0 -30 days)	2 941 522	1 132 015
31 - 60 days	2 291 079	808 817
61 - 90 days	2 467 845	1 088 960
+90 days	51 960 524	46 349 786
Min: Provision for doubtfull debt	(55 469 891)	(46 848 468)
	4 191 079	**2 531 110**

Electricity		
Current (0 -30 days)	1 574 522	1 405 466
31 - 60 days	819 886	1 170 328
61 - 90 days	586 867	965 121
+90 days	108 574 070	126 141 032
Min: Provision for doubtful debt	(106 877 017)	(121 764 711)
	4 678 328	**7 917 236**

Figures in Rand	2016	2015

7. Consumer debtors (continued)

Water		
Current (0 -30 days)	2 587 790	2 010 008
31 - 60 days	2 885 912	1 962 210
61 - 90 days	2 561 145	1 894 319
+90 days	87 037 354	64 187 058
Min: Provision for doubtful debt	(86 988 454)	(66 335 440)
	8 083 747	**3 718 155**

Sewerage		
Current (0 -30 days)	666 421	1 804 180
31 - 60 days	1 565 818	1 764 571
61 - 90 days	1 499 690	1 738 293
+90 days	74 875 877	67 350 765
Min: Provision for doubtful debt	(73 320 046)	(67 920 943)
	5 287 760	**4 736 866**

Refuse		
Current (0 -30 days)	886 158	874 507
31 - 60 days	828 517	840 822
61 - 90 days	805 827	827 124
+90 days	41 164 890	35 225 840
Min: Provision for doubtful debt	(40 718 270)	(35 304 665)
	2 967 122	**2 463 628**

Other - receivables from exchange		
Current (0 -30 days)	17 742 153	14 036
31 - 60 days	712 483	25 219
61 - 90 days	836 573	15 966
+90 days	38 577 596	1 357 334
Min: Provision for doubtful debt	(53 959 127)	(1 328 634)
	3 909 678	**83 921**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

7. Consumer debtors (continued)

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	24 178 622	5 887 000
31 - 60 days	6 941 375	5 439 472
61 - 90 days	6 505 970	5 108 875
+90 days	10 514 752	4 962 351
121 - 365 days	57 615 891	48 476 151
> 365 days	303 117 671	256 788 281
	408 874 281	326 662 130
Less: Allowance for impairment	(381 676 725)	(319 511 800)
	27 197 556	**7 150 330**
Industrial/ commercial		
Current (0 -30 days)	1 546 332	1 166 009
31 - 60 days	1 172 926	1 001 052
61 - 90 days	1 044 169	836 336
+90 days	1 265 070	742 283
121 - 365 days	6 664 487	7 506 383
> 365 days	16 934 531	8 602 507
	28 627 515	19 854 570
Less: Allowance for impairment	(27 522 525)	(20 240 120)
	1 104 990	**(385 550)**
National and provincial government		
Current (0 -30 days)	673 614	440 513
31 - 60 days	989 393	485 130
61 - 90 days	1 207 808	478 223
+90 days	(623 469)	447 291
121 - 365 days	2 598 001	4 550 801
> 365 days	4 103 377	8 035 108
	8 948 724	14 437 066
Less: Allowance for impairment	(8 133 555)	249 062
	815 169	**14 686 128**
Total		
Current (0 -30 days)	26 398 566	7 493 522
31 - 60 days	9 103 695	6 925 654
61 - 90 days	8 757 947	6 423 434
91 - 120 days	11 156 353	6 151 925
121 - 365 days	66 878 379	60 533 343
> 365 days	324 155 579	273 425 896
	446 450 519	360 953 774
Less: Allowance for impairment	(417 332 805)	(339 502 858)
	29 117 714	**21 450 916**
Less: Allowance for impairment		
Current (0 -30 days)	(19 687 982)	(5 791 636)
31 - 60 days	(7 315 128)	(5 869 979)
61 - 90 days	(7 142 525)	(5 672 495)
91 - 120 days	(9 529 985)	(5 523 785)
121 - 365 days	(373 657 185)	(316 644 963)
	(417 332 805)	**(339 502 858)**

Figures in Rand	2016	2015

7. Consumer debtors (continued)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(339 502 858)	(305 074 641)
Contributions to allowance	(77 829 947)	(34 428 217)
	(417 332 805)	**(339 502 858)**

Consumer debtors pledged as security

No consumer debtors were pledged as security for the current and prior financial year.

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Consumer debtors impaired

As of 30 June 2016, consumer debtors of R 412 675 891 (2015: R 339 502 858) were impaired and provided for.

The contribution to the provision recognised in the surplus/(deficit) is R73 173 032 as of 30 June 2016 (2015: R 34 428 218).

The carrying amount of consumer debtors are denominated in the following currencies:

Rand	20 538 560	21 450 915

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	952 341	8 245 211
Short-term deposits	48 831	9 453 742
	1 001 172	**17 698 953**

None of the above accounts have been provided as security or have been pledged as collateral.

No restrictions have been placed on the use of the cash and cash equivalents for the operations of the entity.

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Credit rating		
AA	1 001 172	17 698 953

8. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances 30 June 2016	30 June 2015	30 June 2014	Cash book balances 30 June 2016	30 June 2015	30 June 2014
ABSA Bank: Cheque Account nr 40-5351-7822	952 347	8 245 211	2 494 383	952 341	8 245 217	2 494 383
ABSA Bank Account nr 90 6109 6643	13 919	8 368 062	1 000	13 919	8 368 062	1 000
ABSA Bank Account nr 20 4640 4292	-	-	12 843	-	-	12 843
ABSA Bank Account nr 20 4900 4718	-	-	22 348	-	-	22 348
ABSA Bank Account nr 91 0161 0864	34 906	1 085 680	1 047 623	34 906	1 085 680	1 047 623
Total	**1 001 172**	**17 698 953**	**3 578 197**	**1 001 166**	**17 698 959**	**3 578 197**

9. Investment property

	2016 Cost / Valuation	2016 Accumulated depreciation and accumulated impairment	2016 Carrying value	2015 Cost / Valuation	2015 Accumulated depreciation and accumulated impairment	2015 Carrying value
Investment property	72 209 400	(4 025 611)	68 183 789	72 209 400	(3 175 119)	69 034 281

Reconciliation of investment property - 2016

	Opening balance	Depreciation	Total
Investment property	69 034 281	(850 492)	68 183 789

Reconciliation of investment property - 2015

	Opening balance	Depreciation	Total
Investment property	69 884 772	(850 491)	69 034 281

Pledged as security

None of the above carrying value of assets are pledged as security:

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Revenue recognised on rental on investment property

Amounts recognised in surplus and deficit for the year.

	2016	2015
Rental revenue from investment property	253 261	240 582

There are no restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal.

The carrying value of these assets approximates their fair value.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

9. Investment property (continued)

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment

	2016			2015		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	85 867 608	(6 963 206)	78 904 402	85 750 200	(1 437 509)	84 312 691
Plant and machinery	6 053 114	(3 721 940)	2 331 174	5 890 348	(3 600 848)	2 289 500
Furniture and fixtures	3 457 140	(3 025 137)	432 003	3 390 890	(2 589 456)	801 434
Motor vehicles	14 974 389	(2 668 256)	12 306 133	7 234 119	(2 626 407)	4 607 712
Office equipment	242 144	(223 005)	19 139	222 545	(203 115)	19 430
IT equipment	3 942 217	(1 646 107)	2 296 110	3 479 002	(1 143 636)	2 335 366
Infrastructure	914 494 601	(523 341 881)	391 152 720	904 938 097	(499 673 847)	405 264 250
Work in progress - Infrastructure	152 208 863	(7 105 842)	145 103 021	108 017 108	(7 105 842)	100 911 266
Emergency Equipment	397 314	(174 333)	222 981	397 314	(144 026)	253 288
Leased assets	1 685 000	(374 444)	1 310 556	-	-	-
Total	**1 183 322 390**	**(549 244 151)**	**634 078 239**	**1 119 319 623**	**(518 524 686)**	**600 794 937**

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Componentisation	Depreciation	Impairment loss	Total
Land	84 312 691	117 228	-	(1 803 184)	(3 722 333)	78 904 402
Plant and machinery	2 289 500	162 766	-	(121 092)	-	2 331 174
Furniture and fixtures	801 434	66 250	-	(435 681)	-	432 003
Motor vehicles	4 607 712	7 740 271	-	(41 850)	-	12 306 133
Office equipment	19 430	16 943	-	(17 234)	-	19 139
IT equipment	2 335 366	463 216	-	(502 472)	-	2 296 110
Infrastructure	405 264 250	-	9 556 504	(23 207 352)	(460 682)	391 152 720
Work in progress - Infrastructure	100 911 266	53 748 259	(9 556 504)	-	-	145 103 021
Emergency Equipment	253 288	-	-	(30 307)	-	222 981
Leased assets	-	1 685 000	-	(374 444)	-	1 310 556
	600 794 937	**63 999 933**	**-**	**(26 533 616)**	**(4 183 015)**	**634 078 239**

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Transfers	Componentisation	Depreciation	Impairment loss	Total
Land	55 513 701	21 342 827	8 292 696	-	(836 533)	-	84 312 691
Plant and machinery	3 217 381	-	-	-	(927 881)	-	2 289 500
Furniture and fixtures	1 237 115	-	-	-	(435 681)	-	801 434
Motor vehicles	4 653 815	-	-	-	(46 103)	-	4 607 712
Office equipment	41 741	-	-	-	(22 311)	-	19 430
IT equipment	622 775	2 170 060	-	-	(457 469)	-	2 335 366
Infrastructure	384 944 688	2 407 698	-	37 802 142	(19 890 278)	-	405 264 250
Work in progress - Infrastructure	123 243 062	22 576 188	-	(37 802 142)	-	(7 105 842)	100 911 266
Emergency equipment	294 399	-	-	-	(41 111)	-	253 288
Leased assets	1 003 852	-	-	-	(1 003 852)	-	-
	574 772 529	**48 496 773**	**8 292 696**	**-**	**(23 661 219)**	**(7 105 842)**	**600 794 937**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

10. Property, plant and equipment (continued)

Pledged as security

None of the above assets have been pledged as security for any liabilities.

Assets subject to finance lease (Net carrying amount)

Leased assets	1 310 556	-

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
11. Other financial assets		
At amortised cost		
Senwes and Senwes Beleggings Limited Senwes Limited (4 857 shares at R10.00 per share) and Senwes Beleggings Limited (7 447 shares at R6.00 per share). Dividends of R4 860 (2015: R4 691) were received recorded in surplus and deficit. None of the above are pledged as collateral.	93 252	95 567
Non-current assets		
At amortised cost	93 252	95 567

Financial assets at amortised cost

Financial assets at amortised cost past due but not impaired

None of the above other financial assets are past due not impaired

12. Other financial liabilities		
At amortised cost		
Development Bank of South Africa The Development Bank of SouthAfrica loan expires on 1st April 2020, and the terms stipulates that payments should be made quarterly, interest accrues on the outstanding balance and the rate is12,5% per annum and at 14,5% per annum on payments in arrears.	2 359 763	2 788 679
Non-current liabilities		
At amortised cost	1 874 015	2 358 732
Current liabilities		
At amortised cost	485 748	429 947

Defaults and breaches

There was no default during the period of principal, interest, sinking fund or redemption terms of loans payable. No terms were renegotiated before the financial statements were authorised for issue.

Figures in Rand	2016	2015

13. Finance lease obligation

Minimum lease payments due		
- within one year	730 800	-
- in second to fifth year inclusive	974 400	-
	1 705 200	-
less: future finance charges	(359 039)	-
Present value of minimum lease payments	**1 346 161**	**-**
Non-current liabilities	830 825	-
Current liabilities	515 336	-
	1 346 161	**-**

It is municipality policy to lease certain equipment under finance leases.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note .

Defaults and breaches

There was no default during the period of principal, interest, sinking fund or redemption terms of loans payable. No terms were renegotiated before the financial statements were authorised for issue.

Market risk

The carrying amounts of finance lease liabilities are denominated in the following currencies:

Rand	1 346 161	-

For details of sensitivity of exposures to market risk related to finance lease liabilities, as well as liquidity risk refer to note 52.

The fair value of finance lease liabilities approximates their carrying amounts.

14. Payables from exchange transactions

Trade payables	99 174 704	74 661 899
South African Revenue Service - EMP	2 768 179	2 303 379
Accrued leave pay	8 609 510	8 239 595
Accrued bonus	1 676 921	933 656
Accrued expense - employee cost	5 469 309	3 723 661
Accrued expense - retentions	5 562 405	1 176 560
Unidentified deposits	8 436 290	2 809 890
Accrued expense - compensation commisioner	3 907 901	3 334 701
	135 605 219	**97 183 341**

Payables are being recognised net of discounts.

The carrying amount of the payables from exchange transactions approximates its fair value.

15. Consumer deposits

Water and electricity	1 428 748	1 265 792

Figures in Rand	2016	2015

16. Employee benefit obligations

Defined benefit plan

Post employment medical aid benefit

Medical Scheme Arrangements

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Contribution Rate Structure

Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

Subsidy Policy

All continuation members receive a 60% subsidy. Upon a member's death-in-retirement, the surviving dependants will continue to receive the same 60% subsidy. The subsidy is assumed to be R3 871.00 for the ensuing year. This cap has been assumed to increase in the future in line with 75% of salary inflation.

The effective date of the actuarial valuation of the long service awards obligation and the post employment medical benefit obligation was the 30 June 2016 and were performed by independent professional valuators. The next actuarial valuation is expected to be performed on the 30 June 2017.

The amounts recognised in the statement of financial position are as follows:

	2016	2015
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(5 358 036)	(5 234 116)
Non-current liabilities	(4 770 120)	(4 720 924)
Current liabilities	(587 916)	(513 192)
	(5 358 036)	**(5 234 116)**

The average liability has decreased by 4% due to an increase in the average employer contribution, partially offset by an increase in the average age and an increase in the net discount rate.

The total liability has increased by 2% since the last valuation due to the above, partially offset by a decrease in the number of members. A numerical analysis of the unexpected movement (actuarial gain/loss) is provided in the next section.]

The employee benefit obligations disclosed above are unfunded and have no plan asset.

Changes in the present value of the defined benefit obligation are as follows:

	2016	2015
Opening balance	5 234 116	5 311 098
Interest cost	408 337	408 337
Benefits paid	(512 878)	(499 440)
Actuarial loss/(gain)	228 461	14 121
	5 358 036	**5 234 116**

Key assumptions used

Assumptions used at the reporting date:

	2016	2015
Discount rates used	8.67 %	8.20 %
Health care cost inflation rate	7.85 %	7.47 %

Figures in Rand	2016	2015

16. Employee benefit obligations (continued)

Net effective discount rate	0.76 %	0.68 %
General salary inflation (long-term)	6.00 %	6.94 %

The basis on which the discount rate has been determined is as follow:

GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the liabilities should be used.

A discount rate of 8.67% per annum has been used for post employment medical benefits. The corresponding index-linked yield at this term is 1.71%. These rates do not reflect any adjustment for taxation. These rates were deduced from the JSE Zero Coupon bond yield after the market close on 30 June 2016.

The basis used to determine the health care cost inflation rate:

This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 7.85% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 6.35%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 0.76% which derives from ((1+8.67%)/(1+7.85%))-1.

The expected inflation assumption of 6.35% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (1.71%) and those of fixed interest bonds (8.67%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: ((1+8.67%-0.50%)/(1+1.71%))-1.

The next contribution increase was assumed to occur with effect from 1 January 2017.

The basis used to determine the demographic assumptions on post employement medical benefits:

Demographic assumptions are required to estimate the changing profile of current employees and retirees who are eligible for post-employment benefits.

Post-retirement Mortality
PA(90) ultimate table, adjusted down by one year of age.

Family Profile (retirees)
It has been assumed that husbands will be four years older than their wives. For current retiree members, actual marital status was used and the potential for remarriage was ignored.

The basis on which the general salary inflation (long-term):

This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, salary inflation is between 1.0% and 1.5% above CPI inflation.

The expected inflation assumption of 6.35% was obtained from the differential between market yields on index-linked bonds (1.25%) consistent with the estimated terms of the liabilities (1.71) and those of nominal bonds (8.67%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as ((1+8.67%-0.50%)/(1+1.71%))-1.

Thus, a general salary inflation rate of 7.35% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 0.77%.
It has been assumed that the next salary increase will take place on 1 July 2017.Additional text

Actual returns

The employee benefit obligations are unfunded and therefore are there no actual returns on planned assets.

16. Employee benefit obligations (continued)

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	442 900	377 400
Effect on defined benefit obligation	5 454 000	4 987 000

Amounts for the current and previous four years are as follows:

	2016 R	2015 R	2014 R	2013 R	2012 R
Defined benefit obligation	5 358 036	5 234 116	5 311 098	5 480 584	5 882 862

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2016	2015
Unspent conditional grants and receipts		
Regional Bulk Infrastructure Grant	2 069 635	7 291 481
Municipal Infrastructure Grant	9 880 183	8 944 583
	11 949 818	**16 236 064**

See note 25 for reconciliation of grants from National/Provincial Government.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

18. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Movement due to re-measurement or settlement without cost to entity	Unwinding of interest	Total
Environmental rehabilitation	28 499 921	(3 659 650)	2 196 495	27 036 766
Long service award	3 630 269	555 839	267 524	4 453 632
	32 130 190	**(3 103 811)**	**2 464 019**	**31 490 398**

Reconciliation of provisions - 2015

	Opening Balance	Additions	Correction of error	Unwinding of interest	Total
Environmental rehabilitation	11 492 800	16 465 867	(62 863)	604 117	28 499 921
Long service award	3 181 166	213 178	-	235 925	3 630 269
	14 673 966	**16 679 045**	**(62 863)**	**840 042**	**32 130 190**

	2016	2015
Non-current liabilities	30 231 913	31 142 420
Current liabilities	1 258 485	987 770
	31 490 398	**32 130 190**

Environmental rehabilitation provision

18. Provisions (continued)

The estimated rehabilitation cost are for the landfill sites at Theunissen, Brandfort, Soutpan, Windburg and Verkeerdevlei. General Landfill Closure Costing Model (GLCCM) calculation were performed to estimate the final rehabilitation and closure costs for general landfills. The GLCCM standardises the valuation of landfill closure costs between different landfills and for the same landfill over time. The GLCCM is based on the Minimum Requirements for Waste Disposal by Landfill of the Department of Water Affairs (1998), as amended by more recent regulations.

The liability calculated using the GLCCM includes costs associated with:
- Pre-closure planning and approvals;
- Final rehabilitation and closure; and
- 30 years post-closure monitoring.

Financial assumptions used:

The baseline for the unit costs used in the GLCCM was set in 2011. Unit costs are adjusted annually on 1 April.

For the various cost elements relating to pre-closure planning as well as post-closure monitoring and maintenance, the Consumer Price Index (CPI) was used to adjust the unit cost for each cost element.

The unit cost of the various costs elements relating to rehabilitation and closure were adjusted using the Civil Engineering (Earthworks) Index.

In certain cases, a specific amendment to unit costs (different from the above two indices) is made based on newer information, new technology being used or changes in closure requirements.

In 2015, such changes were made to the unit costs of:
- License for closure application;
- Basic assessment;
- End-use plan;
- Geosynthetics alternative;
- Gas drainage layer;
- Additional capping for impact; and
- Water monitoring.

The CPI was used for the annual adjustment of unit costs as well as for determining the future value of current costs in the year when the cost is projected to be incurred. The average of the CPI for January to March 2015 amounted to 6.592%.

The price adjustment for 2015 based on the average index for January to March 2015 amounted to 6.0978%.

The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used. The rate most consistent with the remaining life of the landfill as calculated by the engineers in 2016 was used. For all landfills the rate associated with the maximum period of 10 years was used, i.e. 2.25% above CPI.

Long service awards

The effective date of this valuation is 30 June 2016 and its purpose is to enable the Municipality to provide appropriate disclosure in their Financial Statements in respect of this liability.
There are 396 employees that are currently entitled to Long Service Awards.
The unfunded liability in respect of past service has been estimated to be R 4,453,632.
The Current-service Cost for the year ending 30 June 2016 is R 502,473. The Current-service Cost for the ensuing year has been estimated to be R 521,375.

Reasons for the Movement in the Liability
The average liability has increased by 19% due to an increase in the average salary and further as a result of one additional year of benefit accrual, partially offset by an increase in the net discount rate.
The total liability has increased by 23% (or R 823,363) due to the above, combined with the fact that there are 13 more eligible employees than at the last valuation.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

18. Provisions (continued)

Unfunded Accrued Liability
The Employer's Unfunded Accrued Liability at 30 June 2016 is estimated at R 4,453,632. The Current-service Cost for the years ending 30 June 2016 and 30 June 2017 are estimated at R 502,473 and R 521,375 respectively.

19. Revenue

Dividends received	4 860	4 692
Fines, Penalties and Forfeits	260 000	43 053
Government grants & subsidies	156 607 170	163 397 470
Interest received - investment	8 107 348	5 105 135
Donations Received	-	45 000
Property rates	35 060 357	16 585 703
Rental of facilities and equipment	253 261	240 582
Service charges	88 250 813	66 259 866
Sundry income	332 595	17 074
	288 876 404	**251 698 575**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	88 250 813	66 259 866
Rental of facilities and equipment	253 261	240 582
Other income	332 595	17 074
Interest received - investment	8 107 348	5 105 135
Dividends received	4 860	4 692
	96 948 877	**71 627 349**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	35 060 357	16 585 703
Transfer revenue		
Government grants & subsidies	156 607 170	163 397 470
Fines, Penalties and Forfeits	260 000	43 053
Donations Received	-	45 000
	191 927 527	**180 071 226**

20. Service charges

Service charges	342 886	263 296
Sale of electricity	18 770 492	20 863 840
Sale of water	38 875 455	19 167 205
Sewerage and sanitation charges	20 295 307	17 567 124
Refuse removal	11 493 112	8 394 107
Settlement discounts	(1 531 470)	-
Other service charges	5 031	4 294
	88 250 813	**66 259 866**

Settlement discounts were given to consumers who paid their accounts before an agreed upon date with the municipality.

21. Rental of facilities and equipment

Premises		
Premises	253 261	240 582

For additional information regarding the rental income, please refer to note 36 - Commitments.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

22. Other revenue

Other income	332 595	17 074

23. Investment revenue

Dividend revenue		
Senwes and Senwes Beleggings Limited	4 860	4 692
Interest revenue		
Bank	495 152	384 011
Interest charged on trade and other receivables - not impaired	359 852	299 472
Interest income on impaired trade and other receivables	7 252 344	4 421 652
	8 107 348	**5 105 135**
	8 112 208	**5 109 827**

24. Property rates

Rates received

Residential	10 985 025	8 972 217
Commercial	7 752 098	5 165 403
State	22 734 571	1 195 568
Small holdings and farms	7 553 281	4 594 822
Less: Income forgone	(13 964 618)	(3 342 307)
	35 060 357	**16 585 703**

Valuations

Residential	960 859 280	727 276 000
Commercial	1 349 678 170	103 933 000
State	1 042 007 800	76 706 000
Small holdings and farms	3 549 268 308	1 552 702 000
Other	48 035 660	-
	6 949 849 218	**2 460 617 000**

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2013.

Rates are levied on an annual basis with the final date for payment being 30 September 2016 (30 September 2015). Interest at prime plus 1% per annum (2015: prime plus 1%) is levied on rates outstanding two months after due date.

The new general valuation will be implemented on 01 July 2015.

The property rates tariffs approved for the year as follow:

Residential: R0.01348, (2015: R0.01348)
Commercial: R0.02697, (2015: R0.02697
State: R0.02697, (2015: R0.0269)
Small holdings and farms: R0.00201, (2015: R0.00337)

Figures in Rand	2016	2015

25. Government grants and subsidies

Operating grants		
Equitable share	88 321 000	84 850 000
Municipal Systems Improvement Grant	930 000	934 001
Local Government Financial Management Grant	2 616 331	3 191 342
Local Government Sector Education Training Authority	118 538	148 382
Expanded Public Works Programme Integrated Grant for Municipalities	1 112 000	1 023 000
	93 097 869	**90 146 725**
Capital grants		
Regional Bulk Infrastructure Grant	38 956 939	48 697 549
Municipal Infrastructure Grant	22 076 400	23 671 417
Accelerated Community Infrastructure Program	-	881 779
Integrated National Electrification Programme Grant	1 500 000	-
Lejweleputswa District Municipality	975 962	-
	63 509 301	**73 250 745**
	156 607 170	**163 397 470**

Conditional and Unconditional

Included in above are the following grants and subsidies; conditions met - transferred to revenue:

Conditional grants - transferred to revenue	68 286 170	78 547 470
Unconditional grants - transferred to revenue	88 321 000	84 850 000
	156 607 170	**163 397 470**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.

Municipal Systems Improvement Grant

Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(930 000)	(934 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 17).

The MSIG was used for building in-house capacity to perform municipal functions and stabilise institutional and governance systems. All conditions have been met relating to the grant.

Local Government Financial Management Grant

Current-year receipts	2 616 331	3 191 342
Conditions met - transferred to revenue	(2 616 331)	(3 191 342)
	-	**-**

Conditions still to be met - remain liabilities (see note 17).

Figures in Rand	2016	2015

25. Government grants and subsidies (continued)

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g.salary costs of the Financial Management Interns). All conditions have been met relating to the grant.

Local Government Sector Education Training Authority

Current-year receipts	118 358	148 382
Conditions met - transferred to revenue	(118 358)	(148 382)
	-	-

Conditions still to be met - remain liabilities (see note 17).

LGSETA grants are paid to the municipality for skills development projects linked to scarce and critical skills.The purpose of these grant is encourage the municipality to contribute towards the achievement of the objectives of the Human Resources Development Strategy (HRDS), the National Skills Development Strategy (NSDS), and the LGSETA Sector Skills Plan (SSP). All conditions have been met relating to the grant.

Regional Bulk Infrastructure Grant

Balance unspent at beginning of year	7 291 481	(3 170 943)
Current-year receipts	33 735 093	59 159 974
Conditions met - transferred to revenue	(38 956 939)	(48 697 550)
	2 069 635	**7 291 481**

Conditions still to be met - remain liabilities (see note 17).

The purpose of this grant is to develop infrastructure required to connect or a augment a water resource, to infrastructure serving extensive areas a cross municipal boundaries or large regional bulk infrastructure serving numerous communities over a large area with the municipality. All conditions have been met relating to the grant.

Municipal Infrastructure Grant

Balance unspent at beginning of year	8 944 583	-
Current-year receipts	23 730 000	32 616 000
Conditions met - transferred to revenue	(22 076 400)	(23 671 417)
Amounts withheld	(718 000)	-
	9 880 183	**8 944 583**

Conditions still to be met - remain liabilities (see note 17).

This grant was used construct municipal infrastructure to provide basic services for the benefit of the poor households. The conditions of the grants were met. All conditions have been met relating to the grant.

Expanded Public Works Programme Integrated Grant for Municipalities

Current-year receipts	1 112 000	1 023 000
Conditions met - transferred to revenue	(1 112 000)	(1 023 000)
	-	-

Conditions still to be met - remain liabilities (see note 17).

The purpose of this grant is to improve the quality of life of poor people and increase social stability through engaging the previously unemployed in paid and productive activities, to reduce levels of poverty, contribute towards increased levels of employment and improve opportunities for sustainable workthrough experience and learning. All conditions have been met relating to the grant.

Figures in Rand	2016	2015

25. Government grants and subsidies (continued)

Accelerated Community Infrastructure Program

Current-year receipts	-	881 779
Conditions met - transferred to revenue	-	(881 779)
	-	-

Conditions still to be met - remain liabilities (see note 17).

The Accelerated Community Infrastructure Programme (ACIP) was implemented in 2010, utilising funds re-prioritised from the Department's approved budget in order to accelerate the achievement of universal access to water and sanitation services by 2014. The objective of ACIP is to accelerate the achievement of universal access to water and sanitation services by 2014.

The ACIP is a "rapid intervention programme" with the focus on:
- Water Conservation and Demand Management;
- Community Infrastructure: Water Supply; and
- Waste water infrastructure refurbishment.

All conditions have been met relating to the grant.

Integrated National Electrification Programme Grant

Current-year receipts	1 500 000	-
Conditions met - transferred to revenue	(1 500 000)	-
	-	-

Conditions still to be met - remain liabilities (see note 17).

The purpose of this grant is to implement the Integrated National Electrification Programme by providing capital subsidies to municipalities to address the electrification backlog of occupied residential dwellings, and the installation of bulk infrastructure.Provide explanations of conditions still to be met and other relevant information. All conditions have been met relating to the grant.

Lejweleputswa District Municipality

Current-year receipts	975 962	-
Conditions met - transferred to revenue	(975 962)	-
	-	-

The Lejweleputswa District Municipality district municipality refurbished the Majwemasjeu community hall on behalf of Masilonyana Local Municipality. All conditions have been met by Masilonyana Local Municipality.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

26. Employee related costs

Allowance: Cell Phones	577 054	640 594
Allowance: Locomotion - Fixed	5 280 714	5 045 718
Allowance: Standby	267 971	75 360
Allowance: Sundry	637 534	434 003
Basic	55 095 454	46 596 339
Bonus	4 984 699	3 223 372
Contributions to Pension and Provident funds	8 019 641	6 109 005
Leave pay provision charge	396 571	1 497 986
Medical aid - company contributions	4 643 869	4 017 938
Other payroll levies	34 934	26 023
Overtime payments	4 041 788	3 644 662
Post-employment benefits	558 425	532 836
SDL	749 853	637 397
UIF	272 546	250 195
WCA	573 200	501 336
	86 134 253	**73 232 764**

Remuneration of Municipal Manager - Mr M.D Nthau

Annual Remuneration	874 882	580 186
Travel, motor car, accommodation, subsistence and other allowances	260 492	298 858
Contributions to UIF, Medical and Pension Funds	23 422	10 020
	1 158 796	**889 064**

Mr M D Nthau was appointed as the municipal manager from 1 May 2015.

Remuneration of Chief Financial Officer - Ms F Mzizi

Annual Remuneration	665 930	557 530
Travel, motor car, accommodation, subsistence and other allowances	303 996	226 365
Contributions to UIF, Medical and Pension Funds	10 955	9 198
	980 881	**793 093**

Ms F Mzizi was appointed as chief financial officer from 1 August 2014.

Acting Director of Infrastructure - Mr. P Tshabalala

Annual Remuneration	96 527	279 787
Travel, motor car, accommodation, subsistence and other allowances	21 200	55 000
Acting allowance	100 109	275 299
Contributions to UIF, Medical and Pension Funds	595	3 064
Scarce skills	-	13 099
	218 431	**626 249**

Mr P Tshabalala was acting as Director of Infrastructure for the period of 4 months starting from July 2015 to October 2015t

Director of Community and Social Services: Mrs ME Makgahlela

Annual Remuneration	871 226	808 290
Travel, motor car, accommodation, subsistence and other allowances	180 000	181 047
Contributions to UIF, Medical and Pension Funds	11 937	11 307
	1 063 163	**1 000 644**

Mrs ME Makgahlela (previously known as Maphobole) was appointed director from 12 November 2012.

Figures in Rand	2016	2015

26. Employee related costs (continued)

Remuneration of Municipal Manager - Mr S Mtakati

Annual Remuneration	-	724 811
Travel, motor car, accommodation, subsistence and other allowances	-	315 431
Contributions to UIF, Medical and Pension Funds	-	11 251
	-	**1 051 493**

Mr S Mtakati resigned as municipal manager on the 30 April 2015.

Acting Director of Infrastructure - Mr. MF Malatji

Annual Remuneration	288 646	-
Travel, motor car, accommodation, subsistence and other allowances	43 200	-
Acting allowance	288 646	-
Contributions to UIF, Medical and Pension Funds	58 964	-
	679 456	**-**

Mr MF Malatji was acting as Director of Infrastructure for the period of 8 months starting from November 2015 to June 2016.

Remuneration of Acting Chief Financial Officer - Ms NC Mekana

Annual Remuneration	-	23 315
Acting allowance	-	57 818
Travel, motor car, accommodation, subsistence and other allowances	-	6 840
Contributions to UIF, Medical and Pension Funds	-	5 843
	-	**93 816**

Ms NC Mekana was acting as chief financial officer from 1 March 2014 to 31 July 2014.

27. Remuneration of councillors

Mayor	759 613	765 742
Speaker	599 526	831 843
Councillors	4 893 752	3 341 008
	6 252 891	**4 938 593**

In-kind benefits

The Mayor and Speaker are full-time members. Each is provided with an office and secretarial support at the cost of the Council.

According to section 1 of the Government Gazette notice number 39548 dated 21 December 2015 on the Determination of upper limits of salaries, allowances and benefits of different members of municipal councils "total remuneration package" is the total cost to a municipality of a basic salary component, a travelling allowance as provided in terms of 6(a) and 9(a), a housing allowance as provided in terms of 6(b) and 9(b), the municipal contribution to a pension fund as provided in item 12(a) and the municipal contribution to a medical aid scheme as provided in item 12(b) to a councilor in a municipal financial year.

Included in the sundry debtors are an amount of R34 840 (2015: R32 162) which consist of the councilors salaries that exceeded their upper limits. The Municipality is in the process of recovering the exceeded amounts paid.

28. Capital donations

Bucket eradication system		
Expensed during the year	-	15 090 643

Figures in Rand	2016	2015

28. Capital donations (continued)

The municipality constructed a bucket eradication program which relates to the main sewerlines contructed and this includes the connections to the toilets and also toilets that were constructed. The toilets and the toilets structures ownership are that of the house owner. The ownership is transferred to the consumer from the municipality. Therefore the expenditure incurred in this regard is expensed as Capital donations.

29. Depreciation and amortisation

Property, plant and equipment	26 533 615	23 706 356
Investment property	850 491	850 562
	27 384 106	**24 556 918**

30. Impairment of assets

Impairments		
Property, plant and equipment	460 682	7 105 842

It was discovered that the Soutpan community hall was severely damaged by the community. The costs to repair will exceed the current value and therefore the entire balance of R0 (2015: R7 105 842) was provided for impairment.

Various assets were not found during the 2016 financial year. Therefore they are provided for impairment by the municipality to the amount of R460 682 (2015: R0)

The main classes of assets affected by the impairment are:

Property, plant and equipment - Infrastructure assets: R460 682 (R2015: R0)

Property, plant and euipment - Work in progress: R0 (R7 105 842)

31. Finance costs

Trade and other payables	3 800 124	3 201 942
Finance leases	148 361	13 283
Current borrowings	4 976 281	1 574 508
	8 924 766	**4 789 733**

32. Debt impairment

Contributions to debt impairment provision	75 794 046	29 492 636

33. Bulk purchases

Electricity	31 161 671	29 424 376
Water	2 607 935	4 658 564
	33 769 606	**34 082 940**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

34. General expenses

Advertising	1 354 288	1 361 593
Auditors remuneration	3 761 377	4 440 714
Bank charges	373 359	405 944
Chemicals	3 170 024	3 508 600
Computer expenses	49 315	67 319
Consulting and professional fees	11 863 226	16 163 409
Consumables	504 883	557 660
Court settlements	5 225 482	1 800
Discount allowed	-	7 328
Entertainment	274 241	256 117
Fuel and oil	1 192 151	1 322 244
Insurance	947 861	377 443
Licence & Registration - Vehicles	116 895	382 454
Magazines, books and periodicals	2 500	586 104
Other expenses	602 228	2 581 956
Pauper burials	596 369	34 000
Postage and courier	332 803	649 994
Printing and stationery	455 693	631 518
Security (Guarding of municipal property)	397 469	218 075
Software expenses	6 935	7 823
Subscriptions and membership fees	722 198	1 721 620
Telephone and fax	3 536 429	3 259 850
Training	2 071 048	1 969 292
Travel - local	397 061	484 998
Uniforms	264 510	2 090 504
	38 218 345	**43 088 359**

35. Fair value adjustments

Other financial assets		
• Other financial assets (Designated as at amortised cost)	(2 315)	4 824

36. Auditors' remuneration

Fees	3 761 377	4 440 714

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

37. Cash generated from operations

(Deficit) surplus	(6 674 391)	6 840 105
Adjustments for:		
Depreciation and amortisation	27 384 106	24 556 918
Loss on sale of assets and liabilities	(473 745)	-
Fair value adjustments	2 315	(4 824)
Impairment deficit	460 682	7 105 842
Debt impairment	75 794 046	29 492 636
Movements in retirement benefit assets and liabilities	123 920	(76 982)
Reversal of transactions directly against accumulated surplus	(7 740 270)	-
Other non-cash items	(17 275)	1 410 254
Actuarial losses / (gains)	652 427	186 235
Accrual for compensation for injury on duty	573 200	501 336
Finance cost on financing activities	4 048 333	-
Changes in working capital:		
Inventories	(205 720)	1 359
Receivables from exchange transactions	7 540	7 641
Consumer debtors	(85 496 745)	(43 446 451)
Other receivables from non-exchange transactions	165	392 675
Payables from exchange transactions	36 735 493	19 861 462
VAT	6 653 412	(18 678 304)
Unspent conditional grants and receipts	(4 286 246)	19 407 007
Consumer deposits	162 956	129 425
	47 704 203	**47 686 334**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

38. Commitments

Authorised capital expenditure

Total approved commitments		
• Property, plant and equipment	23 435 136	32 595 205
Total capital commitments		
Total approved commitments	23 435 136	32 595 205

Total commitments

Total commitments		
Authorised capital expenditure	23 435 136	32 595 205

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, accumulated surplus, existing cash resources, funds internally generated and funding received from National Treasury and other government institutions etc.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	1 199 257	1 201 577
- in second to fifth year inclusive	1 352 650	2 277 424
	2 551 907	**3 479 001**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of two years and rentals are fixed for an average of one year. Rentals are increased at an average rate of 8% per annum No contingent rent is payable.

The municipality's major supplier of operating lease expenditure is the Government Garage where they rent motor vehicles.

Once the leases have expired, they operate on a month-to-month basis until the contract is terminated by one of the parties to the agreement.

The municipality has various lease agreements in place which operate on a month-to-month basis. These leases are not included in the above disclosure as they can be terminated at any given time.

The effect of straigtlining is not recognised as it is not material.

Operating leases - as lessor (income)

The municipality rents out houses to members of the community. No operating lease commitment is disclosed for rental income as the rental contract run on a yearly basis. All contracts ended on 30 June 2016.

39. Contingencies

BJ Moshweledi

Claim by family of children who drowned in sewerage plant - Soutpan. No summons has been received. The liability are estimated at R3 000 000 (2015: R3 000 000).

Various farmers

Veld fire at Verkeerdevlei landfil site, damage to a number of farms. Summons was received, pleadings are closed and the matters are set down for hearing. The liability are estimated at R0 (2015: R6 304 878). The names of the farmers are: Hendrik Daniel Fourie Steyn and Anna Sophia Steyn, BCB Bezuidenhoudt, WJ Goodyear, G Pretorius (Junior), G Pretorius (Senior), HP Oosthuizen, PR Van Standen, JAN Christoffelels, JG Roux, HJ De Wet Smith, Johannes Theodorus Pienaar, and JDA Polyethylene Pipes CC.

Afriforum

The applicants brought an order to mandate the Municipality to provide a plan of action with regard to a heritage site in Winburg. The Municipality has agreed to uprade the landfill site next to the heritage site and to upgrade the road leading to the heritage site. The estimated claims amount to R63 000 (2015: R64 000).

SETAI

It is a labour matter regarding review of the commissioners outcome. This matter is currently before the Labour court with the municipality being the applicant in the matter seeking to review a decision and an outcome by the commissioner awarding SETAI with compensation of R101 000 (2015: R101 000).

SAMWU on behalf of Sandra Julius

The applicant referred the matter to the Labour Court for a Court Order, ordering the municipality to reinstate her and pay her an amount of R120 000 (2015: R34 400). The Municipality as respondent is defending the matter and has lodged an application to review the decision by the commissioner for reinstatement and compensation of Sandra Julius.

SAMWU on behalf of Maggie Kware

The applicants, Maggie Kgware and Nomvuyo Cetane referred the matter to the Labour Court for a Court Order, ordering the municipality to reinstate them and pay over amounts of R90 000 and R96 000 (2015: R41 600 and R96 000) respectively.

SAMRO

In Winburg summons were issued by SAMRO to the municipality for outstanding fees arising from non-payment of licensing fees to an amount of R0 (2015: R12 283,42).

SAMRO

In Theunissen summons were issued by SAMRO to the municipality for outstanding fees arising from non-payment of licensing fees to an amount of R0 (2014: R16 440).

R Du Toit

The plaintiff is suing the municipality for injuries sustained at the OK store in Winburg. The plaintiff is suing the municipality for loss of income and medical costs to the amount of R 149 434,42.

Kabelo Kenneth Tshehloane

It's a civil matter following from a collision in the jurisdiction of the municipality resulting to a loss due to damages of property of the plaintiff amounting to R105 000.

Nkosana K Nongabe / Eric Mokhethi

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

39. Contingencies (continued)

Nongabe is the plaintiff alleging a complaint against Mr Mokhethi both employees of the municipality. The claim stems from the charge of theft against municipal property Mr Mokhethi reported against Mr Nongabe. Mr Nongabe claims defamation of character against his name for an amount of R50 000.

Robbin Higgens

The Plaintiff claims an amount of R0 (2015: R81 000) for service provided and the defendant pleads underperformance by the plaintiff and therefore not entitled for performance subsequent service rendered.

24/7 Workshop

The plaintiffs are suing the municipality for alleged services provided to the municipality for which the municipality failed to perform settlement thereof to the value of R377 640.

Madeleine Shannon

The plaintiff is suing the municipality for loss of support arising from the death of breadwinner who died in the public road belonging to the municipality. The estimated claim amounts to R 2 497 490.

Ruwacon

The plaintiff is suing the municipality for an amount of approximately R7 million being a claim of services rendered to the municipality for erection of bulk water pipeline. The estimated claim amount is R4 800 000.

SAMWU on behalf of Toale and others

Me Toale was dismissed from the municipality for misconduct after a disciplinary hearing decision. She subsequently successfully referred the matter to the bargaining council for unfair dismissal where the ruling effectively reinstated her. Possible liability for an amount of R160 000.

Theunissen forum

Theunissen Forum is suing the municipality for an amount of R8 208 for unlawfully removing hoarding, owned by themselves which displayed their name.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

40. Events after the reporting date

40.1 Soutpan will not be managed under Masilonyana Local Municipality but under Mangaung Metro Municipality with effect from 10 August 2016.

40.2 A new council was elected on 3 August 2016. The council will be in office for the next 5 years, when another municipal election will be held. Details of the newly elected municipal council are as follows:

Councillor name:	Job title:
NA Mochana	Mayor
X Nqwiliso	Exco member
TJ Chele	Councillor
JA Pienaar	Councillor
DE Modise	Speaker
TJ Moahi	Councillor
BB Mokwena	Councillor
MS Chabane	Councillor
VT Pasha	Councillor
PS Tlahadi	Councillor
MS Rakhunoane	Councillor
DJ Maselo	Councillor
EP Mabitla	Exco member
BG Rossouw	Councillor
LP Ratsiu	Councillor
M Visser	Exco member
TB Molahloe	Councillor
OL Ramothamo	Councillor
MT Hogo	Councillor

41. Unauthorised expenditure

	2016	2015
Opening balance at 1 July	602 884 172	599 039 997
Unauthorised expenditure - over expenditure on votes	117 215 054	11 155 035
Unauthorised expenditure written off by council	-	(7 310 860)
	720 099 226	**602 884 172**

Unauthorised expenditure were caused by over expenditure on the executive and council vote of R7 470 092 for 30 June 2016.

42. Fruitless and wasteful expenditure

	2016	2015
Opening balance at 1 July	6 798 421	3 916 149
Fruitless and wasteful expenditure	7 159 157	4 041 539
Fruitless and wasteful expenditure written off by council	(4 041 540)	(1 159 267)
	9 916 038	**6 798 421**

Interest payments on outstanding accounts of supplier - R5 883 910 (2015: R468 226)

Interest payments outstanding account of Sandvet - R116 087 (2015: R487 771)

Interest payments on outstanding account of Eskom - R396 603 (2015: R2 783 961).

Interest payments on the late payments of VAT & PAYE, UIF & SDL - SARS - R473 503 (2015: R272 899).

Interest payments on outstanding account of Auditor General - R13 834 (R28 642).

Other instances of fruitless and wasteful expenditure amounted to R275 219 (2015: R0)

Council resolved on 31 March 2016 that fruitless and wasteful expenditure is written off to the amount of R4 041 540 since there was no fault of any person, such amounts be declared irrecoverable.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

43. Irregular expenditure

Opening balance	199 364 660	192 652 312
Add: Irregular Expenditure - current year	27 838 704	7 685 953
Less: Amounts written off	-	(973 605)
	227 203 364	**199 364 660**

Analysis of expenditure awaiting condonation per age classification

Current year	27 838 704	7 685 953
Prior years	199 364 660	191 678 707
	227 203 364	**199 364 660**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Awards to suppliers in service of state	None	128 800
Procurement regulations not followed for purchases between R2 000 and R10 000 and no deviation documented.	None	43 168
Procurement regulations not followed for purchases between R10 001 and R30 000 and no deviation documented.	None	266 811
Procurement regulations not followed for purchases between R30 001 and R200 000 and no deviation documented.	None	739 496
Procurement regulations not followed for purchases more than R200 000 and no deviation documented.	None	1 704 011
Unspent conditional grant liability is not supported by cash due to monies not used for their intended purposes.	None	10 984 646
Awards to suppliers where employees or their family members have interest	None	870 045
Contravention of CIBD Requirements	None	13 101 727
		27 838 704

44. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	706 350	677 560
Current year subscription / fee	734 796	718 310
Amount paid - current year	(7 500)	(689 520)
Amount paid - previous years	(706 350)	-
	727 296	**706 350**

44. Additional disclosure in terms of Municipal Finance Management Act (continued)

Distribution losses

Electricity:

Total in Rand:

-	Sales	R18 770 492 (2015: R18 848 177)
-	Purchase	R31 161 671 (2015: R14 117 584)

Total in units:

-	Sales	12 372 366 (2015: 13 935 182) kwh
-	Purchase	29 007 623 (2015: 17 406 281) kwh

Tariff

-	Sales	R1.25 (2015: R1.35) per kwh
-	Purchase	R0.87 (2015: R0.81) per kwh

Total distribution loss for electricity amounts to R16 635 257 (2015: R2 815 278)

Total distribution loss for electricity was 57.35% (2015: 63.73%)

Water:

Total in Rands:

-	Sales	R38 875 455 (2015: R4 131 616)
-	Purchase	R2 607 935 (2015: R4 745 785)

Total in units:

-	Sales	545 720 (2015: 523 955) Kilolitres
-	Purchase	3 769 800 (2015: 4 614 552) Kilolitres

Tariff:

-	Sales	R13.93 (2015: R7.89) per Kilolitre
-	Purchase	R0.79 (2015: R1.03) per Kilolitre

Total distribution loss for water amounts to R2 230 407 (2015: R4 206 940).

Total distribution loss for water was 85.52% (2015: 63.73%)

Audit fees

	2016	2015
Opening balance	(564 825)	1 559 248
Current year subscription / fee	4 300 730	4 440 714
Amount paid - current year	(3 122 567)	(6 564 787)
	613 338	**(564 825)**

PAYE and UIF

	2016	2015
Opening balance	2 303 378	613 711
Current year subscription / fee	10 813 104	8 164 061
Amount paid - current year	(7 763 751)	(5 860 683)
Amount paid - previous years	(2 303 378)	(613 711)
	3 049 353	**2 303 378**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

44. Additional disclosure in terms of Municipal Finance Management Act (continued)

Pension and Medical Aid Deductions

	2016	2015
Opening balance	2 414 382	1 297 407
Current year subscription / fee	20 512 141	16 598 228
Amount paid - current year	(16 502 979)	(14 258 061)
Amount paid - previous years	(2 414 382)	(1 223 192)
	4 009 162	**2 414 382**

VAT

	2016	2015
VAT receivable	11 177 593	15 795 107

VAT output payables and VAT input receivables are shown in note 6.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2016	**Highest outstanding amount**	**Ageing (in days)**
Councillor D E Modise	3 581	180
Councillor I I Majara	16 098	180
Councillor J A Pienaar	3 248	180
Councillor T J Chele	23 770	180
Councillor V M Lekale	12 970	180
Councillor S L Kgoe	6 635	180
Councillor Z P Thuthani	19 120	180
	85 422	**1 260**

30 June 2015	**Highest outstanding amount**	**Ageing (in days)**
Speaker S J Mabitla	744	90
Councillor D E Modise	144	90
Councillor K A Sekharume	952	150
Councillor M B Tsoaela	4 128	180
Councillor S L Kgoe	7 272	180
Councillor T P Ramongalo	101	90
Councillor Z P Thuthani	24 072	180
Councillor M Venter	62 624	180
	100 037	**1 140**

44. Additional disclosure in terms of Municipal Finance Management Act (continued)

Particulars of non compliance with the Municipal Finance Management Act of 2003

- The Municipal Infrastructure Grant allocation was not spent in accordance with the applicable grant framework, in contravention of section 17(1) of the Division of Revenue Act.

- The Regional Bulk Water Infrastructure Grant allocation was not spent in accordance with the applicable grant framework, in contravention of section 17(1) of the Division of Revenue Act.

- Money owed by the municipality had not always been paid within 30 days / an agreed period, as required by section 65(2)(e) / 99(2)(b) of the MFMA.

- Reasonable steps were not taken to prevent unauthorised expenditure, irregular, fruitless and wasteful expenditure as required by section 62(1)(d) of the MFMA.(

- An effective system of expenditure control, including procedures for the approval of payment of funds, was not in place, as required by section [65(2)(a) / 99(2)(a)] of the MFMA.

- Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the Municipal Finance Management Act.

- Losses resulting from unauthorised expenditure amounting to R11 155 035 was written-off as irrecoverable without being certified by council as irrecoverable, in contravention of section 32(2)(a)(ii) of the Municipal Finance Management Act.

- Council certified unauthorised expenditure as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(a)(ii) of the Municipal Finance Management Act.

- Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the Municipal Finance Management Act.

- An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.

- An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

- Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

- Accounts for municipal tax and charges for municipal services were not prepared on a monthly basis), as required by section 64(2)(c) of the MFMA.

Figures in Rand	2016	2015

45. Related parties

Relationships

Accounting Officer	M D Nthau
Members of key management	M D Nthau
	S Mtakati (Resigned - 30 April 2015)
	M E Maphobole
	F V Mzizi
	MP Tshabalala
	ME Makgahlela
	MF Malatji

Related party balances

Amounts included in Trade receivable (Trade Payable) regarding related parties	2016	2015
Speaker S J Mabitla	7 639	5 614
Councilor S C Mangoejane	717	525
Councilor D E Modise	5 432	1 094
Councilor J A Pienaar	4 805	327
Councilor K A Sekharume	784	2 019
Councilor K P Dichakane	836	432
Councilor L M Moloele	1 152	116
Councilor M B Tsoaela	45	6 044
Councilor M M Kholumo	2 096	4 753
Councilor M G Bosman	1 423	(1 159)
Councilor P T Botha	1 329	1 903
Councilor S L Kgoe	9 277	7 203
Councilor T P Ramongalo	1 517	991
Councilor T J Chele	-	25 998
Councilor Z P Thuthani	20 671	24 851
Councilor M Venter	1 901	70 949
Councillor V M Lekale	30 987	-
Councillor T J Chele	26 202	-
Councillor I I Majara	18 331	-

Related party transactions

Rates levied	2016	2015
Speaker S J Mabitla	7 835	-
Councilor S C Mangoejane	1 034	270
Councilor J A Pienaar	4 382	3 157
Councilor K A Sekharume	-	465
Councilor M G Bosman	2 629	6 133
Councilor P T Botha	4 427	3 639
Councilor S L Kgoe	1 955	525

Service charges levied	2016	2015
Speaker S J Mabitla	19 981	20 640
Councilor S C Mangoejane	2 434	3 799
Councilor D E Modise	5 232	-
Councilor K A Sekharume	5 232	3 799
Councilor K P Dichakane	5 232	3 799
Councilor L M Moloele	5 232	3 799
Councilor M B Tsoaela	-	3 799
Councilor M M Kholumo	5 232	-
Councilor M G Bosman	5 232	14 349
Councilor P T Botha	24 297	5 875
Councilor S L Kgoe	5 232	3 799
Councilor T P Ramongalo	5 232	3 799
Councilor Z P Thuthani	3 153	2 979
Councilor M Venter	8 030	19 841

Figures in Rand	2016	2015
45. Related parties (continued)		
Councillor V M Lekale	3 743	4 116
Councillor T J Chele	5 232	-
Councillor I I Majara	5 232	-
Other income levied		
Speaker S J Mabitla	208	194
Councilor S C Mangoejane	-	36
Councilor D E Modise	106	177
Councilor J A Pienaar	96	142
Councilor K A Sekharume	33	72
Councilor K P Dichakane	-	35
Councilor L M Moloele	-	16
Councilor M B Tsoaela	43	236
Councilor M G Bosman	33	-
Councilor P T Botha	-	57
Councilor S L Kgoe	246	289
Councilor T P Ramongalo	-	61
Councilor Z P Thuthani	500	888
Councilor M Venter	-	2 945
Councillor V M Lekale	736	-
Councillor T J Chele	687	-
Councillor I I Majara	488	-

Remuneration of key management refer to employee related cost note in the annual financial statements.

46. Prior period errors

Receivables from exchange transactions: The municipality previously could not provide supporting documentation for all suspense accounts. The investigation resulted in the increase of receivables from exchange transactions with R11 673, decrease in accumulated surplus with R6 941, decrease in value added tax payable with R873.85, increase in consumer deposits with R4 014, decrease in service charges with R733 and decrease in general expenses with R5 912.

Receivables from non-exchange transactions: Prior year suspense accounts of R442 417 in receivables from non exchange transactions were investigated and cleared. This resulted in decrease in receivables from non-exchange with R442 417, decrease in accumulated surplus with R424 837 and increase in repairs and maintenance with R17 580.

Value added tax: The increase in the value added tax receivable are as result of the corrections of the work in progress, the property plant and equipment with the effect of R15 998 792, and also the correction of the expenditure not recorded or recorded in the incorrect financial year with the effect of R22 066.

Cash and cash equivalents: Prior year suspense accounts of R19 368 were investigated and cleared. This resulted in increase in cash and cash equivalents with R19 368 and increase in accumulated surplus with R19 368.

Property, plant and equipment: The decrease in the property, plant and equipment are due to unbundling of assets, assessment of conditions, useful life's and residual values and the correction of the work in progress. The effect of the assessment on the property, plant and equipment are a decrease of R17 696 879, increase in value added tax of R15 998 792, increase in donated capital with R15 090 642, decrease in depreciation with R554 552.35, increase in impairment with R7 105 842. Expenditure were also identified in property, plant and equipment was reallocated to repairs and maintanance, the correction resulted in the decrease in property, plant and equipment and increase in repairs and maintanance with R7 133 377.

46. Prior period errors (continued)

Payable from exchange transactions: The municipality previously did not record all expenditure, did not record expenditure in the correct financial year and duplicated expenditure. The effect of the corrections resulted in the increase payable from exchange transactions with R1 083 478. Not all leave applications were captured in the provision for leave under payables from exchange transactions, the corrections resulted in the increase in employee related cost and increase in payables from exchange transactions with R565 203. The municipality recorded accruals regarding third party payment in the incorrect financial year, the correction resulted in the increase in employee related cost with R118 573 and payables from exchange transactions with R118 573.

Unspent conditional grants: Unspent grant were corrected due to National Treasury not approving the entire roll-over of the municipal infrastructure grant of R492 050. This resulted in the increase in the unspent conditional grant and decrease in the government grants and subsidies.

Provisions: A mathematical error were identified in the calculation of the provision for the landfill site rehabilitation obligation of R62 863 of the prior year experts. The error resulted in the decrease in provision with R62 863 and increase in accumulated surplus with R62 863.

Employee related cost: Not all leave applications were captured in the provision for leave under payables from exchange transactions, the corrections resulted in the increase in employee related cost and increase in payables from exchange transactions with R565 203. The municipality recorded accruals regarding third party payment in the incorrect financial year, the correction resulted in the increase in employee related cost with R118 573 and payables from exchange transactions with R118 573.

Finance cost: The municipality recorded finance charges in the incorrect financial period. The correction resulted in the decrease of finance cost and decrease in payable from exchange transactions with R4 077.

Repairs and maintenance: Prior year suspense accounts were cleared and resulted in the increase in repairs and maintenance with R17 580, expenditure were not recorded by the municipality in the correct period, the correction resulted in the decrease in payables from exchange transactions with R89 806, decrease in value added tax receivable with R11 028, and decrease in repairs and maintenance with R78 777. The municipality previously recorded property, plant and equipment in repairs and maintenance, the effect of the correction resulted in the decrease in repairs and maintenance with R5 493 344, increase in property, plant and equipment with R4 135 196, decrease in value added tax receivable with R31 854, increase in depreciation with R78 159 and decrease in accumulated surplus with R1 130 614, and decrease in payables from exchange transaction with R295 388. Expenditure were also identified in property, plant and equipment was reallocated to repairs and maintanance, the correction resulted in the decrease in property, plant and equipment and increase in repairs and maintanance with R7 133 377.

Bulk purchases: Bulk purchases of R356 132 were recorded in the incorrect financial year, this correction resulted in the decrease of bulk purchases and payables from exchange transactions with R356 132.

General expenses: Expenditure was identified by the municipality recorded in the incorrect financial year, the corrections resulted in the increase in general expenses with R1 753 955. The municipality also identified expenditure incorrectly recorded under property, plant and equipment, the correction resulted in the increase with of general expenses with R1 315 789.

Opening accumulated surplus: The increase in openinng accumulated surplus of R15 675 761 are due to clearing of suspense accounts resulted in decrease of R431 778 in accumulated surplus, correction of landfill site provision resulting in increase of accumulated surplus with R62 863, clearing of cash & cash equivalents suspense account resulting increase of accumulated surplus with R19 368, correction of property, plant and equipment resulting increase in accumulated surplus with R16 015 778 and correction of consumer debtors opening balance resulting increase in R9 530.

The correction of the error(s) results in adjustments as follows:

46. Prior period errors (continued)

Statement of financial position		
Increase in receivables from exchange transactions	-	11 673
Decrease in receivables from non-exchange transactions	-	(442 417)
Increase in Value added tax receivable	-	16 010 859
Increase in cash and cash equivalents	-	19 368
Decrease in Property, plant and equipment	-	(24 830 256)
Increase in payables from exchange transactions	-	(1 767 922)
Decrease in value added tax payable	-	874
Increase in consumer deposits	-	(4 014)
Increase in unspent conditional grants and receipts	-	(492 050)
Decrease in provisions	-	62 863
Increase in opening balance accumulated surplus	-	15 675 762
Statement of Financial Performance		
Decrease in service Charges	-	733
Decrease in government grants & Subsidies	-	492 049
Increase in employee related cost	-	683 777
Increase in donated capital	-	15 090 643
Decrease in depreciation and amortisation	-	(554 552)
Increase in impairment	-	7 105 842
Decrease in finance costs	-	(4 077)
Increase in repairs and maintenance	-	1 578 834
Decrease in bulk purchases	-	(356 133)
Increase in general expenses	-	3 069 745

47. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

Statement of financial position - extract

	Comparative figures previously reported	Reclassification	After reclassification
VAT Receivable	-	(215 752)	(215 752)
VAT Payable	(215 752)	215 752	-
Employee benefit obligation (Current)	(883 792)	370 600	(513 192)
Employee benefit obligations	(7 980 593)	3 259 669	(4 720 924)
Provisions (Current)	(617 170)	(370 600)	(987 770)
Provisions (Non-Current)	(27 945 614)	(3 259 669)	(31 205 283)
Total	**(37 642 921)**	**-**	**(37 642 921)**

Statement of financial performance - extract

	Comparative figures previously reported	Reclassification	After reclassification
Other income	62 074	(45 000)	17 074
Donations received	-	45 000	45 000
Depreciation and amortisation	29 350	(29 350)	-
General expenses	-	29 350	29 350
Total	**91 424**	**-**	**91 424**

48. Going concern

Factors that indicate an uncertainty regarding the municipality to continue as a going concern:
- Unspent conditional grants are not cash-backed.
- A net current liability position was realised at year-end.
- The municipality experienced cash flow problems during the year, which resulted in all creditors not being paid on time.
- Roll-over for unspent grants was not approved by National Treasury, resulting in the municipality having to pay back the unspent grants during the following financial year.

Even though above uncertainties exist regarding the municipality's ability to continue as a going concern, the annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding from National Treasury for the ongoing operations for the municipality and the successful implementation of the debt collection scheme of the municipality.

49. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Services and goods were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations. The total amount of procurement expenditure with deviations amounts to R1 540 016.

Reasons for deviations consist of the following:
- Only service provider within the municipality that provide the service;
- Emergency services;
- Three quotation were requested from prospective service providers however only two submitted and etc.

50. Budget differences

Material differences between budget and actual amounts

50. Budget differences (continued)

Inventory

The value of consumable inventories at year was higher than anticipated at year end which inflated the value of inventories.

Consumer debtors

Due to high unemployment rate in the municipality, which result in low collection rate.

Cash and cash equivalents

Due to high creditors the mnicipality could not have anticipated cash at year end.

Property, plant and equipment

The procurement of yellow fleet. Capital grant expenditure also increased Property, plant and equipment.

Investment property

The municipality over-budgeted for investment property.

Consumer deposits

The number of new account applications was higher than anticipated and that resulted in under budgeting.

Payables from exchange transactions

This is as a result of accuals from prior year and othe unforseen expenses(legal costs, training, S&T and accomodation) incurred during the year. The budgeted amount was to maintain the cost containment measures due to municipal cashflow status which resulted in under budgeting.

Unspent conditional grants

The municipality could not meet the conditions due to financial constraints.

VAT receivable

50. Budget differences (continued)

The municipality did not budget for VAT.

Property rates

This is as a result of the implementation of the new valuation roll on the 01/07/2015, the properties that were not on the old Valuation Roll were now included and other property values increased.

Fines

The muncipality purchased traffic equipment to assis with revenue enhancement, which resulted in revenue expected to exceed what was anticipated.

Government grants and subsidies

LGSeta and the audit fees assistance grant were not gazetted on DORA and resulted in the under budgeting of grant revenue.

Service charges

This is due to some accounts not billed on other services, some accounts being incorrectly classified as indigents when they are normal consumers and due to high distribution losses.

Interest earned - outstanding debtors

Due to revenue enhancement strategies in place, the debtors age analysis was anticipated to decrease drastically and that interest on outstanding debtors would also decrease. However, the goal of collecting more was not met and esulted in under budgeting fro interest on outstanding debtors.

Employee related costs

Stand-by and acting allowances where critical positions are vacant, overtime and salary adjustments resulted in the overspending on employee costs.

Depreciation and amortisation

The componentisation of completed projects in the previous year resulted in adjusted depreciation charges. This was only done in the current year, therefore depreciation was over-estimated based on the incorrect amounts from the prior year.

Debt impairment

Low collection rates resulted in an increased debt impairment.

Repairs and maintenance

Due to ageing infrastructure and vehcles, the municipality spent more on Repairs & maintenance that anticipated, and the ancticipaltion was based on the prior actuals.

Bulk purchases

The drought and electricity shortages resulted in less purchases made.

Contracted services

The actual expenditure was allocated to consultant fees which forms part of other expenditure.

Transfers and grants

The number of indigents to be registered for the year was less than the number that registered, which resulted in under budgeting.

Notes to the Annual Financial Statements

Figures in Rand

50. Budget differences (continued)

General expenses

The budgeted amount was to maintain the cost containment measures due to municipal cashflow status which resulted in under budgeting,

Transfers recognised - capital

The muncipality spent less than the capital allocation due to financial contraints experienced.

Finance charges

Interest on the provisions and employee benefits could not be budgeted for.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence the municipality performing the mid-year assessment in terms of section 72 of the Municipal Finance Management Act and a report will tabled before council for approval of an adjustment budget on the 22 January 2016.

An adjustment budget was as result of mid-year performance Assessment on the municipality budget performed.

50. Budget differences (continued)

Expenditure analysis per department
Corporate service
The department has exceeded its budget by 2%, which has significantly decreased when compared to the 2014/15. There's R5 million Included in the budget for legal cost are Contingencies from previous years and current litigations. There was R250 000 budget for IT equipment of which R161 000 has been spent, but due to poor network connection, an additional R2.4 million must be budgeted to enable the municipality to improve financial system synchronisation between all units of the municipality. The adjustment budget on IT section makes provision for IT server blade which was reported as accruals in the 2014/2015 financial year.

Community and Social
The department spending was at 25% as at 31/12/2015, which reflects that the department is not achieving some of the service delivery activities budgeted but due to low collection rate and financial challenges they were not met in the first half of the 2015/16 financial year.

There's an ongoing project of establishment of cemeteries that must be adjusted for as it was not included in the original budget. Rental of chemical toilet for cemeteries for the remaining six months are also adjusted for.

Finance department
An amount of R10.6 million on this department budget constitute of non-cash items which are Depreciation of R30 459 820 and Debt Impairment of R27 683 391, to accommodate the non- payment of consumer.

The external audit fees were under budgeted for at R 2 597 228 which did not cover the 2014/15 audit fees and there's an adjustment to R 3 284 890 to ensure that Auditor General Invoices are correctly budgeted for.

Considering the demand of office furniture in all units of the Municipality, there's an adjustment of R 200 000 to accommodate the need.

Infastructure Service
The budget on this department will focus mainly on repairs and maintenance of roads and storm water, procurement of electricity aluminium cable, due the theft of the copper cables that were previously procured. This has a direct impact on the service delivery as the power cuts occurred as a result of these thefts.

The other critical issue was water and waste treatment plants which the municipality had to repair from own funding due to their life span. The municipality is anticipating to receive funding from DOE to replace the electricity conventional meters to pre-paid. Revenue collection still remains a challenge due to the old electricity conventional meters that are easily tempered with. The installation of electricity pre-paid meters is the only solution to increase revenue therefore sustainable quality services can be delivered. The municipality has applied for funding for refurbishment of Electricity network however the application was declined. We anticipate to pursue this matter until the funds are available since the municipality does not have financial capacity to roll out this project.

Capital expenditure by vote/department
Expenditure
Debt impairment
The municipality budgeted realistically for bad debts impairment .The reason for debt impairment to be budgeted for, is to ensure that the Municipality is prepared that not all billed monies will be collected, as the collection rate is currently at 40%. The municipality originally budgeted R130 Million on services charges which only +- 40% of it will be collected

Debt impairment was increased by R11 million when compared to 2014/15, as the OPERATION PATALA was launched during the 2015/16 financial to improve the collection rate.

Employee related cost
Salaries has been decreased by R1.2 million as a result of the Section 56 position (IDP) that was budget for and could not be filled, and other positions that are on hold.

Finance charges
Originally the budgeted amount of Finance charges was R 744 000 mainly for interest on Long-term loans with DBSA. However, due to interest charged on Bulk water and electricity accounts, there was a need to adjust the budget.

Contracted services

50. Budget differences (continued)

The current expenditure as at 31/12/2016 is at 98%, but the budget will not be adjusted as the expenditure was mainly for AFS compilation ad valuation roll matter. Compilation of documents such as SDBIP and Annual Report are now compiled in-house as a result of this, services of contractors for those services will not be needed.

Other expenditure
Other expenditure relates to general operating expenditure of the municipality. The main thing that resulted to the expenditure being increased was own funding capital that was adjusted to accommodate IT networks, consulting fees for establishment of cemeteries. The total operational expenditure budget has been decreased by R10 221 889

Income
The municipality budgeted R 205 mil in the annual budget, however when the overall budget was assessed, the municipality under budgeted on Revenue. The Statement of Performance as 31 December 2015 was R 146 million. Revenue budget is increased by R 25 million due to the following:

Sale of water which is 89% of the budget, Property Rates was is increased due to the current performance which is 143% of the budget, this is as a result of new Valuation roll 2015/2016 that was implemented on 1 July 2015. The process is at a stage where the appeals are being addressed and finalised in February 2016.

Interest earned on investment was understated. The actual performance disclosed on AFS 2015 was considered, therefore increased from R399 000 to R500 000. No adjustments were made on interest earned on outstanding debt. The actual performance as 31 December 2015 is 71% of the budget.

51. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At amortised cost	Total
Other financial assets	93 252	93 252
Trade and other receivables from exchange transactions	19 711	19 711
Other receivables from non-exchange transactions	31 997	31 997
Consumer debtors	29 117 714	29 117 714
Cash and cash equivalents	1 001 172	1 001 172
	30 263 846	**30 263 846**

Financial liabilities

	At amortised cost	At cost	Total
Other financial liabilities	2 359 763	-	2 359 763
Trade and other payables from exchange transactions	135 605 217	-	135 605 217
Consumer deposis	-	1 428 748	1 428 748
	137 964 980	**1 428 748**	**139 393 728**

2015

Financial assets

	At amortised cost	Total
Other financial assets	95 567	95 567
Trade and other receivables from exchange transactions	27 251	27 251
Other receivables from non-exchange transactions	32 162	32 162
Consumer debtors	21 450 916	21 450 916

. Financial instruments disclosure (continued)

Cash and cash equivalents	17 679 585	17 679 585
	39 285 481	**39 285 481**

Financial liabilities

	At amortised cost	At cost	Total
Other financial liabilities	2 788 679	-	2 788 679
Trade and other payables from exchange transactions	97 183 343	-	97 183 343
Consumer deposits	-	1 265 792	1 265 792
	99 972 022	**1 265 792**	**101 237 814**

Financial instruments in Statement of financial performance

2016

	At amortised cost	Total
Net losses on financial instruments	2 315	2 315
Interest income (calculated using effective interest method) for financial instruments at amortised cost	8 108 445	8 108 445
	8 110 760	**8 110 760**

2015

	At amortised cost	Total
Net gains on financial instruments	4 824	4 824
Interest income (calculated using effective interest method) for financial instruments at amortised cost	5 105 135	5 105 135
	5 109 959	**5 109 959**

52. Risk management

Financial risk management

52. Risk management (continued)

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2016	Less than 1 year	Payable within two to five years	Payable after five years	Over 5 years
Other financial liabilities	735 268	2 205 804	-	-
Finance lease obligations	730 800	974 400	-	-
Trade and other payables	135 605 217	-	-	-

At 30 June 2015	Less than 1 year	Payable within two to five years	Payable after five years	Over 5 years
Other financial liabilities	735 268	2 941 072	551 451	-
Trade and other payables	97 183 343	-	-	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

At 30 June 2016, if interest rates on Rand-denominated borrowings had been 0.1% higher/lower with all other variables held constant, post-tax surplus for the year would have been R 215 400 (2015: R 95 393) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings; other components of equity would have been R 215 400 (2015: R 95 393) lower/higher mainly as a result of a decrease/increase in the fair value of fixed rate financial assets classified as available-for-sale.